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Improving the financial situation of the United Nations

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Report of the Secretary-General

Addendum

I. Introduction

1. The present report updates information on the financial situation of the United Nations provided in the report of the Secretary-General of 13 October 1999 (A/54/454). It also provides information on the financial situation of the Organization at 31 December 1999 and cash flow projections for 2000.

II. Review of the financial situation at the end of 1999

A. Overview

2. Overall, 1999 was a year of financial turnaround with higher year end cash balances and lower unpaid assessments, as well as lower debt to Member States for troops and contingent-owned equipment.

3. During 1999, a number of issues were resolved, including the possibility of the major contributor falling under Article 19 of the Charter of the United Nations. As a result, aggregate available cash balances at the end of 1999 for the regular budget, peacekeeping and the international tribunals combined jumped to a high of $1,093 million from the previous relatively stable amounts of $677 million in 1996, $669 million in 1997 and $736 million in 1998.

4. Unpaid assessments for the regular budget, peacekeeping and the tribunals stood at $1,758 million, down from $2,031 million a year earlier. The level of debt to Member States for troops and contingent-owned equipment totalled $800 million at the end of 1999, significantly lower than during the previous three years.

5. Originally it was projected that the total level of assessments for 1999 would aggregate $1,889 million, with over $1 billion for the regular budget, $155 million for the tribunals and a forecast of $650 million for peacekeeping. Actual assessment levels for 1999 were close to those levels at just over $2 billion. Regular budget and tribunal assessments for 1999 were in line with these projected levels. Peacekeeping assessments increased to $856 million due to higher assessed levels than originally projected for most missions. In total, however, the combined assessment level for 1999 was the lowest in six years, at $2,065 million. Regular budget assessments in 1999 were at the 1994 level. Peacekeeping assessments decreased from the peak years of 1994 and 1995 and assessment levels for the international tribunals have increased each year since their inception.

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B. End year cash position

Regular budget cash flow

6. After many years of negative cash balances for the combined General Fund (for the regular budget and related reserve funds), as low as negative $197 million in 1996, the positive cash balance at the end of 1999 of $111 million was a welcome change. At the end of 1999, 126 Member States had paid their regular budget assessment for 1999 and all earlier years in full, 9 more than in 1998 and 51 more than in 1994. Five years ago only 75 Member States paid their regular budget contribution in full. The consistent payment in full of regular budget assessments is the prime measure of the Organization's financial stability. The Secretary-General is extremely grateful for the improved trend by so many Member States.

7. The major contributor also made substantially higher payments. In the previous report, possible year-end scenarios were presented, all based on the level of regular budget payments that the United States of America could make by year end 1999. In the end, that Member State chose the most favourable one, full payment in 1999 of an amount equal to its 1999 regular budget assessment of $302 million, plus an additional payment of $150 million. As a result, the total regular budget payments of that Member State to the United Nations totalled $452 million in 1999.

8. By way of background, the United Nations regular budget cash crisis began in earnest in 1995 when the United States paid only 48 per cent of its regular budget assessment. The immediate cash crisis subsided in 1999 when it paid 149 per cent of its regular budget assessment. In effect, its payments in 1999 largely offset its shortfall in 1995. Payments by other Member States of their current year's assessments and arrears totalled 103 per cent of 1999 assessments. As a result, for the first time since 1995, no cross-borrowing of funds from peacekeeping accounts was needed at year end.

Peacekeeping cash flow

9. Peacekeeping cash forecasts are built on assumptions about variables that are hard to predict. Constant reassessment of forecasts is usually unavoidable and the reassessment made at the end of 1999 was no exception. At the end of 1999, cash balances were higher than in the forecast made last October when year-end peacekeeping cash was forecast at $749 million. Actual peacekeeping cash at year end amounted to $957 million, significantly exceeding the three most recent years.

10. Two variables came into play that caused the cash levels to rise. First, assessment levels were higher than earlier projected. Second, and most importantly, Member States paid a high proportion of assessments.

11. Payments by Members, other than the United States, of current year assessments and arrears totalled 123 per cent of amounts assessed in 1999. Peacekeeping contributions from those Member States have ranged from 90 per cent to 120 per cent in the five years previous to 1999. The United States paid 92 per cent of its 1999 assessments, about the same percentage as 1997 and 1998, but far in excess of the 40 per cent and 70 per cent levels it paid in 1995 and 1996. These two factors contributed to the improved peacekeeping cash position as at 31 December 1999.

12. In view of the higher year-end cash balance of $111 million for the combined General Fund and the continuing pressure on peacekeeping cash to finance new and expanded missions, the Secretary-General, in March 2000, decided to transfer $58 million from the General Fund to peacekeeping to substantially complete funding of the Peacekeeping Reserve Fund.

13. The Peacekeeping Reserve Fund is a cash flow mechanism to permit rapid response by the United Nations to the needs of new or expanded peacekeeping operations. By a decision of the General Assembly, the level of the Fund was set at $150 million, of which $92 million had been funded in prior years both from the General Fund ($25 million) and from three closed peacekeeping missions ($67 million), namely, the United Nations Transition Assistance Group (UNTAG) in Namibia, the United Nations Iran-Iraq Military Observer Group (UNIIMOG) and the United Nations Observer Mission in El Salvador (ONUSAL). The transfer of an additional $58 million of cash from the General Fund completes the authorized funding and will be reflected as additional cash resources available for peacekeeping in 2000. As a result of these positive developments, the need to cross-borrow did not occur.

C. Unpaid assessments

14. Unpaid assessment balances were considerably lower at the end of 1999. Regular budget and

peacekeeping amounts were down and international tribunal amounts were up.

15. The absolute level of unpaid regular budget assessments continues to be reduced, down to $244 million as at 31 December 1999, a reduction of $173 million compared with the end of 1998. Unpaid assessments due from the United States were down by $148 million, while amounts due from all other Member States were down by $25 million. The level of unpaid regular budget assessments as at 31 December 1999 was highly concentrated in four Member States. The United States, Brazil, Yugoslavia and Argentina together owed 88 per cent of the total amount outstanding. The remaining 12 per cent was owed by 55 other Member States.

16. As for peacekeeping assessments, the amount unpaid as at 31 December 1999 aggregated $1,482 million, a decrease of $112 million from 1998. The outstanding payments of the United States increased by $19 million while those of Ukraine and Belarus did not change. The Russian Federation once more reduced its unpaid balance, by $46 million, from the year before. Five years ago, the Russian Federation had unpaid peacekeeping assessments that aggregated over $500 million. Each year since has seen a reduction which came to just under $80 million at the end of 1999. The amounts unpaid by all other Member States were reduced by $85 million. The aggregate levels of arrears is concentrated in four Member States, the United States, Ukraine, the Russian Federation and Belarus, who together owe 90 per cent of the total.

17. The unpaid assessments for the international tribunals were over $32 million at the end of 1999. This growing level of unpaid amounts for tribunal assessments is roughly in proportion to the growth in the level of the related assessments. The unpaid amount as at the end of 1999 is about 20 per cent of the assessment level for 1999.

D. Debt to Member States

18. The Organization began 1999 with amounts owed to countries providing troops and equipment to peacekeeping missions totalling $872 million, with most of that amount owed for equipment. At the end of 1999, debt to Member States stood at $800 million, $72 million less than the amount owed at the beginning of the year.

19. During the course of 1999, the United Nations incurred new obligations aggregating $232 million, slightly more than those incurred in 1998. In 1999, the Secretary-General continued the policy of paying out to Member States amounts equivalent to new obligations incurred. To that end, a partial payment of $141 million was made during the course of 1999 and a further $91 million will be paid shortly.

20. The policy adopted by the Secretary-General also seeks to pay down debt to Member States when payments of arrears are received. Accordingly, a payment of $16 million was made in October 1999 as a result of an arrears contribution of that amount by the Russian Federation in September. Two additional arrears payments were received late in 1999, $46 million from the United States and $25 million from the Russian Federation, and will be paid out to Member States in 2000.

21. In determining the amount owed to Member States for contingent-owned equipment, it is not unusual for individual Member States and the Secretariat to negotiate a revaluation of equipment. A significant revaluation, primarily affecting one Member State, reduced debt owed to Member States by $147 million in 1999, thereby partially reversing an upward revaluation of $200 million reported in earlier years.

22. The year-end level of unpaid troop and contingent-owned equipment debt of $800 million is appreciably lower than that at the end of 1998. While the debt owed to Member States decreased during 1999, the amount in question is determined strictly on the availability of cash to settle the Organization's debts. If the Secretariat had been able, in 1999, to disburse more promptly amounts now scheduled for delayed payment in year 2000, the pro forma amount of debt would have been $638 million. This would have been a significant decrease in the level of unpaid debt to Member States.

23. The reduction in debt to Member States is due, in part, to the consistent application of the policy set by the Secretary-General, which includes full payment to Member States of current year obligations and strict dedication of arrearage payments against the debt to Member States related to prior years. Future liquidation of troops and equipment obligations is almost entirely dependent on the collection of peacekeeping assessments now long in arrears.

III. Year 2000

24. Prospects for 2000 are similar to the situation in 1999 for the regular budget and the tribunals. However, as a result of new responsibilities mandated to the Organization, peacekeeping assessments are now forecast to move to a much higher level, currently calculated to reach $1,938 million. In the aggregate, assessment levels projected for 2000 represent an increase of more than $1 billion over 1998 and 1999. Thus, the progress made in 1999 could be overturned in 2000 should the Organization's operational grasp exceed its financial reach. That is the prospect and the uncertainty for 2000.

A. Available cash: regular budget

25. Despite the above caveat, the number of Member States paying on time and in full during the first two months of 2000 have surpassed those that did so in 1999. As at 31 January 2000, 43 Member States had paid their regular budget assessments for 2000 in full, compared with 32 one year earlier. In February 2000, another 21 Member States made their full regular budget payment, bringing the total to 64, 15 more than last year. This is an encouraging sign, which bodes well for 2000.

26. It is expected that cash flow for the regular budget will continue to show improvement, with General Fund cash balances positive during more of the year. In addition, a positive year-end cash balance is projected, a stark contrast with 1995, 1996 and 1997 when deficits, rather than surpluses, prevailed.

27. These projected changes are based on the assumption that the United States will pay regular budget contributions in 2000 equivalent to its assessments for that year. If that basic assumption holds, the General Fund cash projection for 2000 will show no basic difference from the previous year. The main deficit cash position will be in October and November 2000, as the Organization awaits the current year's contribution from the United States. It is hoped that that Member State might accelerate its usual year-end regular budget payment so that there would be no need for any cross-borrowings from peacekeeping cash for any month during 2000.

B. Available cash: peacekeeping

28. Peacekeeping cash is not expected to have as high a year-end balance in 2000 as was the case in 1999. First, $162 million of cash on hand in the peacekeeping account has been earmarked to pay to Member States in 2000 obligations incurred in 1999. The first obligation is the final settlement ($91 million) of 1999 obligations for troops and contingent-owned equipment. Also earmarked in the accounts at year-end 1999 are arrears payments ($71 million) from the United States and the Russian Federation in late 1999, which will be paid to Member States in 2000.

29. Second, on the operational side, the overall peacekeeping cash balance will be favourably impacted throughout 2000 by payments by Member States of the higher level of peacekeeping assessments to be rendered applicable to 2000. At the same time, cash balances will be unfavourably impacted by the need to pay more mission costs currently, especially for the military and formed police unit components, which are quite prominent in several large new missions, and for which payment cannot be deferred.

30. Therefore, peacekeeping cash for the end of 2000 is projected to be $773 million, after excluding $162 million from cash amounts for that year that are earmarked for payment to Member States in 2000 on a delayed basis.

C. Combined cash

31. The combined cash picture at the end of 2000 is projected to reach $891 million, an amount far over the level of 1995 through 1998, but below that of 1999, even when that year's balance of $1,092 million is reduced by $162 million, the amount earmarked for delayed payment in 2000.

D. Debt to Member States

32. At 31 December 1999, debt to Member States aggregated $800 million. Early in 2000 it is anticipated that payments delayed from 1999 will be made to Member States, consisting of $91 million to complete payment for new troop and contingent-owned equipment obligations incurred in 1999 and $71 million in additional payments to Member States as the result of the receipt of payment of arrears from the

United States and the Russian Federation. It is also anticipated that new obligations for troops and contingent-owned equipment, aggregating $419 million, will be incurred in 2000. This amount anticipates several large or expanded missions, including those in Kosovo, East Timor and Sierra Leone. In 2000, the Secretary-General intends to pay a minimum of some $365 million to liquidate a high portion of new obligations for troops and contingent-owned equipment. This amount falls short of the total of new obligations to be undertaken in 2000 by $54 million. The failure of the projection to fully pay for new troop and contingent-owned equipment obligations in the year in which they arise is not a change in policy, or at least not at this time. Given the high level of payments made for 1999 and the high level of obligations to be undertaken in 2000, the Secretary-General intends to be both conservative as well as prudent in identifying a minimum amount to be paid out. Based on the elements of the above projection, unpaid debt to Member States for troops and contingent-owned equipment will aggregate $692 million at the end of 2000.

33. This projected debt at year-end 2000 is another reduction in a continuing series of reductions of the debt achieved in the past several years, and is certainly a major reduction from the peak year of 1995, when the United Nations owed its Member States over $1.1 billion.

34. Overall, the cash situation for the year 2000 will be better, the collection of assessments will be better and there will be a better level of debt. All of this adds up to a United Nations better prepared to meet the responsibilities placed on the Organization by its Member States.

IV. The new challenge

35. There is a danger that this overall improvement in the financial situation may be upset by the new special challenges before the United Nations, the missions and those in Kosovo and East Timor in particular. These operations are daunting as are their financial underpinnings and specifically the slowness with which financial resources are being made available for them. Their financial base is provided through a mix of financial sources, including assessments, voluntary contributions and fees for services as further detailed below.

A. Kosovo

36. This far-reaching undertaking has been organized to deal with both the complex nature and the extent of the mission. Humanitarian affairs is the responsibility of the Office of the United Nations High Commissioner for Refugees (UNHCR), with funding largely provided by voluntary contributions. Civil administration is the responsibility of the United Nations, with funding provided by assessed contributions and voluntary contributions. Economic reconstruction is the responsibility of the European Union, with funding for its consolidated budget being provided by voluntary contributions and fees for services. Institution-building is the responsibility of the Organization for Security and Cooperation in Europe, with funding provided by its own budget and voluntary contributions. The Special Representative of the Secretary-General is the highest international civilian official in Kosovo, responsible for the entire mission. However, each pillar remains financially independent.

37. Assessments were issued in a timely fashion to fund the United Nations Interim Administration Mission in Kosovo (UNMIK), which is responsible for establishing the civil administration. But those assessments, of late, have not been paid in a timely fashion, or, in some cases, have not been paid at all.

38. The assessment process started well with the first UNMIK assessment for $125 million approved by the General Assembly on 28 July 1999. Of that amount, 17 Member States were assessed for 90 per cent of the budget with the remaining 171 Member States assessed 10 per cent. In a relatively short time, five months later, $115 million had been collected. A second assessment for $290 million was legislated in December 1999. Taken together, the two assessments aggregated $415 million. By 29 February 2000, only $190 million, less than half the total amount assessed, had been paid. 126 Member States made no contribution to the first assessment and 163 Member States made no contribution to either assessment. Only 25 Member States paid both assessments in full.

Voluntary contributions

39. By contrast, Member States have been relatively prompt in paying pledges made for voluntary contributions. As of the beginning of February 2000, $30 million had been pledged, of which 90 per cent had been received. These voluntary contributions have been

used for stipends for the Kosovo civil administration, the winterization programme and quick impact projects, which have financed, on an emergency basis, essential recurrent expenditures, such as fuel, waste disposal services and ambulance and bus operations. Quick impact projects have also financed governmental services prior to the implementation of the Kosovo consolidated budget. Now, with the implementation of the Kosovo consolidated budget, the quick impact projects will carry out other necessary projects, such as radar and other facilities at the Pristina airport.

40. Economic reconstruction in Kosovo is managed by the European Union and is being financed through what is termed the 2000 consolidated budget. Revenue sources of 423 million deutsche mark (DM) are required to fund most of the consolidated budget in 2000. Half of the DM 423 million in revenue to fund these services is to be drawn from taxes (DM 180 million) and user fees (DM 27 million); the other half from voluntary contributions (DM 216 million).

41. Amounts pledged by the end of February 2000 by various donors aggregated DM 210.9 million. The European Union and individual members of the European Union have pledged almost 75 per cent of the required voluntary funds. Of these pledges approximately DM 84.2 million had been paid by the beginning of March. A further DM 70 million is expected shortly. It was expected that 73 per cent of pledges would have been paid by the end of March.

42. The recent inflows of cash, both from improved collections of taxes and user fees, together with payment of pledges, will fund the Kosovo consolidated budget through mid-June. Receipt of the further pledged contributions of the European Union of 35 million euros will extend that date to September 2000.

B. East Timor

43. The United Nations Transitional Administration in East Timor (UNTAET) is responsible for the administration of the territory of East Timor, including the administration of justice.

44. An assessment of $200 million was approved by the General Assembly in resolution 54/246 of 23 December 1999. A proposed budget for the period 1 December 1999 to 30 June 2000, amounting to $386 million is currently being reviewed by the Advisory Committee on Administrative and Budgetary Questions before consideration by the Fifth Committee in May. Of the $200 million assessed, $28 million was received by the end of February. As at 21 March, that amount had increased to $69 million, with only 38 Member States having paid their assessment partially or in full. This means that 65 per cent of the assessment has yet to be paid.

45. As with UNMIK, trust funds were established to support UNTAET. One trust fund was to support the International Force, East Timor (INTERFET), which was established to receive contributions to help defray the costs of participating Member States in the multinational force. UNTAET is also dependent on voluntary funding for the East Timor consolidated budget, managed by the Central Fiscal Authority, which covers salaries for civil servants and operational costs. These costs are estimated at $28 million for 2000, assuming projected revenues of $15 million. Out of $32 million pledged at a donor's meeting in Tokyo, a total of $22 million has been paid to the Fund. It was agreed in Tokyo to hold another meeting in Lisbon in June 2000, at which the requirements will be reviewed in the light of developments on the ground.

46. Kosovo and East Timor represent major undertakings of the Organization. Mixed financing, relying on a major component of voluntary contributions, increases the difficulty of predicting the timing and extent of cash inflows. It also drains the efforts of key personnel to manage the mission while at the same time keeping the ship afloat financially.

V. Conclusion

47. For 1999 as a whole, after a period of several years, a degree of financial stability returned for activities funded from the regular budget. For activities funded from peacekeeping assessments, the degree of stability was less, with periodic juggling of amounts owed to Member States to provide the United Nations with a degree of financial liquidity. At this point, 2000 portends more of the same for the regular budget and the international tribunals. For special missions funded in large measure by voluntary contributions, however, there is greater uncertainty as the financial mix of assessed contributions, revenue and voluntary contributions leaves in doubt who, how much and when contributions will be received.

Annex I

List of countries paid in full

Regular budget — 1999

Algeria
Andorra
Armenia
Australia
Austria
Azerbaijan
Bahamas
Bahrain
Bangladesh
Barbados
Belarus
Belgium
Belize
Bhutan
Bolivia
Bosnia and Herzegovina
Botswana
Brunei Darussalam
Bulgaria
Cambodia
Canada
Chile
China
Colombia
Côte d'Ivoire
Croatia
Cuba
Cyprus
Czech Republic
Democratic Republic of the Congo
Denmark
Dominican Republic
Egypt
El Salvador
Equatorial Guinea
Estonia
Ethiopia
Fiji
Finland
France
Gabon
Gambia
Germany
Greece
Grenada
Guinea
Haiti
Honduras
Hungary
Iceland
India
Ireland
Italy
Jamaica
Japan
Jordan
Kazakhstan
Kuwait
Kyrgyzstan
Lao People's Democratic Republic
Latvia
Lebanon
Lesotho
Libyan Arab Jamahiriya
Liechtenstein
Luxembourg
Madagascar
Malawi
Malaysia
Maldives
Mali
Malta
Marshall Islands
Mauritania
Mauritius
Mexico
Micronesia
Monaco
Mongolia
Mozambique
Myanmar
Namibia
Nepal
Netherlands
New Zealand
Nigeria
Norway
Oman
Pakistan
Panama
Papua New Guinea
Poland
Portugal
Qatar
Republic of Korea
Romania
Russian Federation
Rwanda
Saint Kitts and Nevis
Saint Vincent and the Grenadines
Samoa
San Marino
Saudi Arabia
Senegal
Sierra Leone
Singapore
Slovakia
Slovenia
Solomon Islands
South Africa
Spain
Sri Lanka
Sweden
Syrian Arab Republic
Thailand
The former Yugoslav Republic of Macedonia
Trinidad and Tobago
Tunisia
Turkey
Turkmenistan
Uganda
Ukraine
United Arab Emirates
United Kingdom of Great Britain and Northern Ireland
Viet Nam
Zambia

Total: 126

Annex II

Status of payments by Member States of 1999 and 2000 regular budget assessments

Member States whose regular budget contributions for 1999 and 2000 were received in full by 31 January

1999

Armenia
Austria
Azerbaijan
Botswana
Canada
Denmark
Egypt
Estonia
Finland
France
Hungary
Iceland
Ireland
Kuwait
Latvia
Liechtenstein
Luxembourg
Malta
Marshall Islands
Monaco
Netherlands
New Zealand
Norway
Poland
Russian Federation
Saint Kitts and Nevis
Singapore
Slovakia
Solomon Islands
South Africa
Sri Lanka
Sweden

Subtotal: 32

2000

Armenia
Australia
Azerbaijan
Bahrain
Belarus
Canada
Democratic People's Republic of Korea
Denmark
Egypt
Estonia
Finland
France
Gabon
Guatemala
Hungary
Iceland
Ireland
Kazakhstan
Kuwait
Kyrgyzstan
Latvia
Lesotho
Libyan Arab Jamahiriya
Liechtenstein
Luxembourg
Malaysia
Malta
Marshall Islands
Mauritania
Monaco
New Zealand
Norway
Russian Federation
Saint Kitts and Nevis
Saint Vincent and the Grenadines
Samoa
Singapore
Slovakia
South Africa
Sri Lanka
Sweden
Thailand
Viet Nam

Subtotal: 43

Member States whose regular budget contributions for 1999 and 2000 were received in full in February

1999

Australia
Belgium
Belize
Bhutan
China
Cyprus
Czech Republic
El Salvador
Ethiopia
India
Italy
Malaysia
Maldives
Namibia
Republic of Korea
The former Yugoslav Republic of Macedonia
Viet Nam

Subtotal: 17

Total: 49

2000

Afghanistan
Bangladesh
Belgium
Belize
Bosnia and Herzegovina
Botswana
China
Cuba
Czech Republic
Fiji
Honduras
India
Italy
Maldives
Netherlands
Nicaragua
Papua New Guinea
Poland
The former Yugoslav Republic of Macedonia
Tunisia
Uzbekistan

Subtotal: 21

Total: 64